

New Federal Revenue Affects State Spending Trends

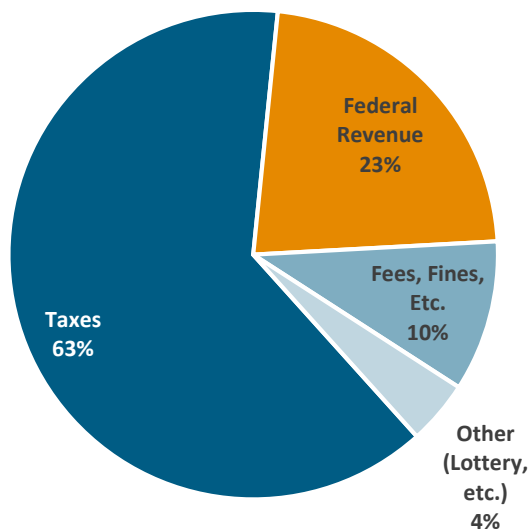
The recent increase in state spending is largely due to new spending reimbursed by new federal revenues thanks to the federal Affordable Care Act. With the implementation of the Affordable Care Act between Fiscal Years 2014 and 2015, the total state budget grew approximately 5.8 percent. During this period, federal revenues that – among other things – reimburse the state for much of its health care spending grew 14.2 percent. With so much new federal revenue helping pay for the state’s health care spending, between FY 2014 and FY 2015 the state’s “net spending” – that is, looking only at the direct cost to the state – grew only 3.3 percent.

Much of the state’s growth in health care spending was reimbursed by additional federal revenue thanks to the federal Affordable Care Act. While MassHealth and related health care spending grew by about \$1.17 billion, reimbursements from the federal government to support expanded health care under health reform grew by about \$1.02 billion, almost fully covering the costs of this new spending.¹

In fact, the Administration estimates that in FY 2015, the Commonwealth will receive \$338 million in federal funding coming from the Affordable Care Act due to higher federal reimbursements for MassHealth members who were already covered by state health care programs. The state also estimates \$93 million in new net costs associated with providing health care coverage to people who were not receiving coverage in the past as well as some costs for certain benefits for people shifting from one form of coverage to another. As a result, the state is seeing a net bottom line savings of \$245 million as a

result (\$338 million in new federal revenue minus \$93 million in new net costs associated with MassHealth coverage.)²

FY 2014 Revenues



Federal revenues are the second largest revenue source supporting the state budget (see illustration). In fact, federal revenue supports close to one-fourth of the state’s total budgetary spending each year.

These federal revenues, which will likely total \$9.8 billion in FY 2015, include reimbursements to the state for spending on a variety of federally-mandated programs.

By far the largest portion of the state’s federal revenues reimburse the state for MassHealth, the subsidized health insurance for low- and moderate-income people and for people with

¹ This brief serves as a companion to “[Understanding the Actual Cost of MassHealth to the State](#)”, published November 2014 in conjunction with the Mass. Medicaid Policy Institute.

² These numbers are based on estimates provided by the Administration, assuming on average an enhanced federal reimbursement rate of approximately 77 percent across all MassHealth programs covered by the Affordable Care Act expansion.

significant disabilities. In effect, the federal government pays for more than half of the state’s MassHealth program, and this reimbursement level has increased significantly with the implementation of federal health reform. Federal reimbursements now cover as much as 80-100 percent of the cost of some newly-eligible MassHealth members.

While total (gross) MassHealth and health reform spending grew 8.6 percent between FY 2014 and FY 2015 federal revenue helping to pay for MassHealth and health reform spending grew even faster – growing by 15.0 percent between FY 2014 and FY 2015. Net of federal revenue, MassHealth and health reform spending grew just 2.2 percent between FY 2014 and FY 2015.

What were spending trends prior to mid-year budget cuts?

There were mid-year (9c) cuts early in 2015 designed to help balance the budget. These cuts had little impact on either gross or net health spending trends (see table below.) They did have an impact on total spending, as gross spending was growing at more than 6 percent before the cuts, and net spending was growing at about 4 percent. (Notably, both the state and national economies have also grown about 4 percent over the past few years.³)

	FY 2014 – FY 2015 adj.*	FY 2014 – FY 2015 Current
Total (gross) budget growth	6.3%	5.8%
Net of federal revenue budget growth	4.0%	3.3%
MassHealth and health reform (gross) budget growth	8.6%	8.6%
Net of federal revenue MassHealth and health reform budget growth	2.3%	2.2%
* FY 2015 adj. total reflects the FY 2015 budget without the February 2015 budget-balancing budget cuts		

Federal revenues will not continue to grow dramatically in future years. The Affordable Care Act provided a boost to a new *level* of reimbursement, but the law itself does not necessarily affect spending *trends*. Accordingly, the longer term trends in health care spending – and by extension longer term trends in total budget spending – will depend on other policy decisions. Health care cost growth continues to present a significant challenge to the Commonwealth in the long term. Even so, the state’s budget gets a boost from and is a beneficiary of the generous reimbursement rates provided by the Affordable Care Act.

³ We measure growth in the overall Massachusetts economy using the Personal Income figures as measured by the U.S. Department of Commerce Bureau of Economic Analysis, Regional Economic Information System. These numbers are adjusted include estimates of capital gains income from the Mass. Department of Revenue Consensus Revenue Report for taxed capital gains, and the Tax Expenditure Budget for untaxed capital gains. In addition, we include an estimate to add in income produced by the economy that goes to non-residents, as this income does not show up in the BEA personal income estimates. We calculated U.S. economic growth trends using the Gross Domestic Product.